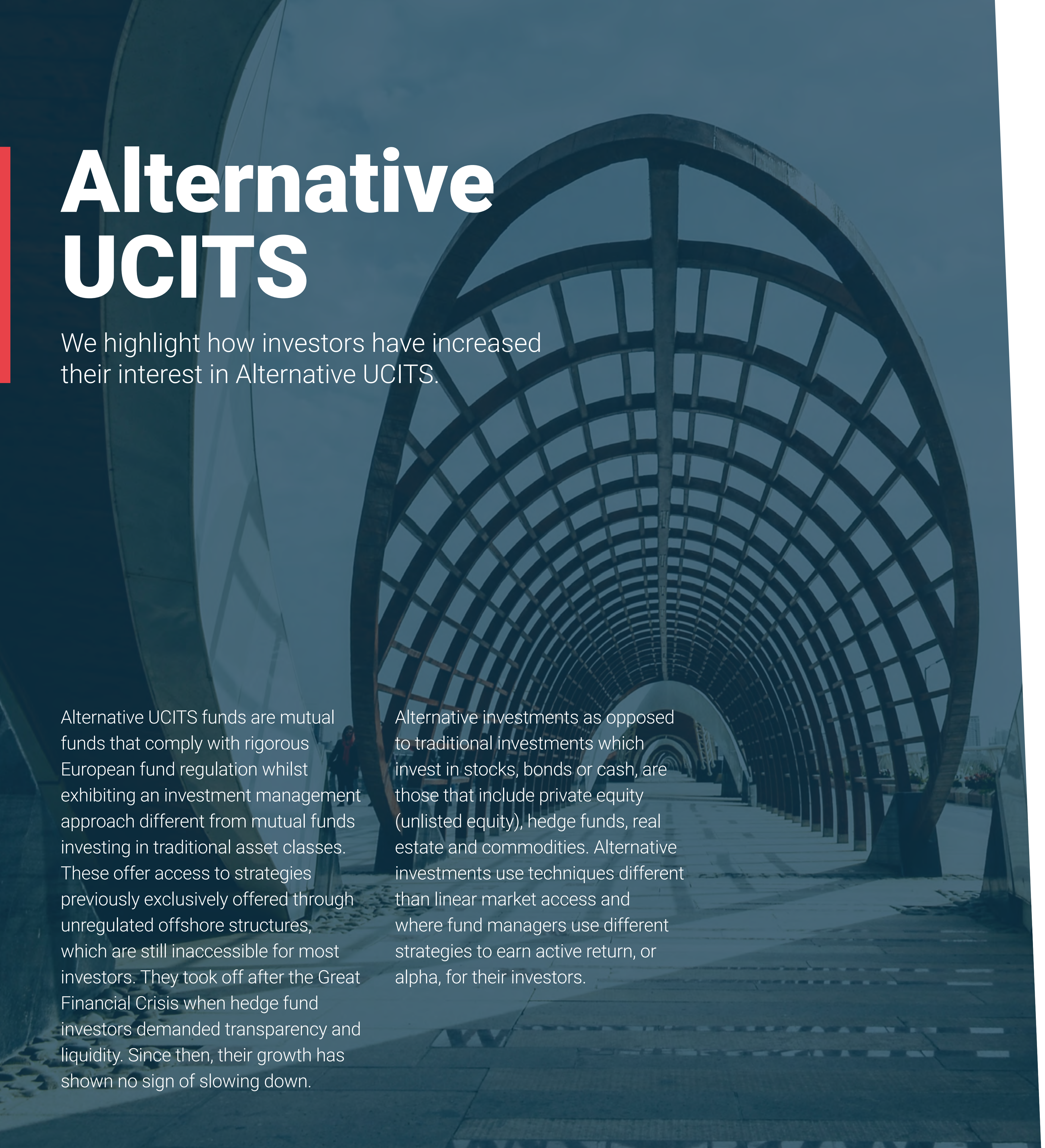

Alternative UCITS

We highlight how investors have increased their interest in Alternative UCITS.

Alternative UCITS funds are mutual funds that comply with rigorous European fund regulation whilst exhibiting an investment management approach different from mutual funds investing in traditional asset classes. These offer access to strategies previously exclusively offered through unregulated offshore structures, which are still inaccessible for most investors. They took off after the Great Financial Crisis when hedge fund investors demanded transparency and liquidity. Since then, their growth has shown no sign of slowing down.

Alternative investments as opposed to traditional investments which invest in stocks, bonds or cash, are those that include private equity (unlisted equity), hedge funds, real estate and commodities. Alternative investments use techniques different than linear market access and where fund managers use different strategies to earn active return, or alpha, for their investors.

Florian Gröschl
Managing Partner at
Absolute Return Consulting GmbH

The only Alternative

Here we are in the 12th year of not only a raging equity, but also **bond bull market.** In fact there are very few assets that do not trade at a higher price than a decade ago. Given we had one or the other substantial financial crises, not to forget the irritating pandemic lately, the last couple of years will find their way in the **economic history books of our children.**

However, this period of ultra-loose monetary and increasingly supportive fiscal policy will end at some point. That is probably the only fact that (whenever that might be) everybody can agree upon. If we take a look at the average portfolio today we most likely will find an overweight in large cap growth, a substantially longer duration in government bonds then a couple of years ago and a far **riskier corporate credit portfolio.** What we might not find is true diversification. That's because there basically is none in **directional markets** in a zero rate environment with central banks buying whatever is issued.

So **where should we go to/look at to alter the risk profile of our portfolios if long dated government bonds might not serve the purpose in the next down market?** Well, in the pre 2008 days we used to call it Hedge Funds. Unfortunately many promises were not honored then and investors in a number of cases woke up only with a structural low equity beta and a considerable amount of – also directional – credit risk and not with the universal negative beta - we will save your returns - solution that might have been sold to them.

The industry evolved and learned, first and foremost, that there is no free lunch. You will never have a zero cost call on your favorite equity index with no downside, so either **accept the volatility or stay out of the market.** Another hard learned fact was that offshore structures might be suitable for some investors that have the means and know how to understand their risk, but for most of us more regulated, more transparent vehicles might make more sense. Thus Alternative UCITS, i.e. hedge fund like strategies in a super regulated and transparent wrapper, were born.

As we now know where to look, if we search for diversifying elements only the bagatelle of strategy and manager selection remains. As it would go far beyond the scope of this article to work through all the dos and don'ts and aspects of selecting the right manager and strategy we will shorten the path here.

If I would have to select only one strategy as a diversifying addition to my long only portfolio, the most important questions obviously are: **"Where are my key risks?"** and **"What management skills are the rarest in my portfolio?"**

Number one will most likely be answered by **"market-beta"** and regarding question two, traditionally quant strategies are underweight in most long only portfolios. So, what do I need: probably an AI driven multi asset long short fund that is unbiased, not emotional, constantly re-evaluated and improved.

With the Tungsten Trycon AI Global Markets (LU0451958309) **I have made my choice. And You?**